

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7975

BILL NUMBER: HB 1917

DATE PREPARED: Jan 20, 1999

BILL AMENDED:

SUBJECT: Civil property tax levies.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that, in determining a civil taxing unit's maximum property tax levy, the minimum increase in the unit's assessed value growth quotient is equal to the lesser of the rate of inflation (determined according to the Gross Domestic Product implicit price deflator prepared by the United States Department of Commerce) or 4%. (Current law provides that the minimum increase in the assessed value growth quotient is 5%.)

The bill provides that for property taxes first due and payable in 2000 and 2001, a civil taxing unit may not impose a property tax rate that is greater than the property tax rate imposed by the civil taxing unit for property taxes first due and payable in 1999. It provides that this rate limit does not apply to property tax rates imposed for a unit's debt service fund or to pay any other bond or lease obligations.

Effective Date: July 1, 1999.

Explanation of State Expenditures: If local unit levy growth is reduced by this bill then there would be a reduction in the state's expense for property tax replacement credit (PTRC). The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately \$11 million in CY 2000, \$23 million in CY 2001, \$36 million in CY 2002, \$50 million in CY 2003, and \$65 million in CY 2004.

Since property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by \$2 million in CY 2000, \$4.1 million in CY 2001, \$2.6 million in CY 2002, \$3.6 million in CY 2003, and \$4.7 million in CY 2004.

The total reduction in expenditures for the state under this bill is estimated at **\$6.5 million in FY 2000, \$20.1**

million in FY 2001, \$32.7 million in FY 2002, \$45.8 million in FY 2003, and \$61.3 million in FY 2004.

These estimated expenditure reductions assume that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the proposal may be slightly less than the above amounts.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Currently, civil taxing units get maximum levy increases equal to their three year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would remove the 5% minimum and replace it with the Gross Domestic Product Implicit Price Deflator up to 4%. This means that the minimum guaranteed max levy increase would never be more than 4%, regardless of the actual price deflator. The deflator has averaged about 2.5% over the last few years. This analysis assumes that the deflator will remain constant at 2.5%. The actual deflator is, however, subject to fluctuation.

Since the deflator would be lower than the current minimum 5% max levy increase, the growth in local civil units' levies and tax rates would slow. The amount by which the levy growth slows is dependent upon (1) the actual deflator each year, (2) the unit's actual three year AV growth quotient, and (3) whether the unit sets the tax levy at the maximum permissible levy.

Additionally, for CY 2000 and CY 2001, the bill prohibits civil taxing units from imposing a tax rate that exceeds the rate imposed in CY 1999. This effectively limits levy growth to the assessed value growth quotient in CY 2000 and CY 2001.

Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at \$2,127 million in CY 2000 and \$2,238 million in CY 2001. Under this proposal, the statewide total civil unit maximum levy is estimated at \$2,072 million in CY 2000 and \$2,123 in CY 2001. The maximum levy reduction would amount to approximately **\$55 million in CY 2000, \$115 million in CY 2001, \$179 million in CY 2002, \$248 million in CY 2003, and \$323 million in CY 2004.**

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: All civil taxing units.

Information Sources: Local Government Database; Bureau of Labor and Statistics.